Special Issue on Guatemala: Its Poverty Pushed Even U.S. Bankers Left, Page 2.

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The Return To Dollar Diplomacy

With that gift for inauspicious utterance he so often displays, Secretary of State Dulles spoke of "forced labor on a vast scale" in his speech at Caracas calling for intervention in Guatemala. He was referring, of course, to the Soviet bloc, but the phrase itself to a Latin American must conjure up a picture closer home. "Forced labor on a vast scale" is something Latin America knows all too well. Guatemala's history in particular is a history of slavery. The two-thirds of its people still Indian in culture and speech have long been serfs in one form or another to the one-third of its people who are "ladinos."* These in turn have been exploited by the tiny majority of their own great landholders and a few foreign companies, notably United Fruit. These are the conditions the present regime in Guatemala has been seeking to eliminate ever since the dictator Ubico was overthrown in 1944.

All this, after a lifetime in Sullivan & Cromwell, must be well known to John Foster Dulles. The law firm in which he was senior partner is counsel for International Railways, which controls the transport system of Guatemala for United Fruit, and counsel for the Schroder bank, which served German coffee interests whose plantations in Guatemala were expropriated in the last war. It is Guatemala's misfortune that the beginnings of free government and of social reform should coincide with the appearance of an American Secretary of State who was himself closely associated with the old order in Central America. With Mr. Dulles, we are back in the era of Philander C. Knox.

Unfortunately a decade of ideological inquisition culminating in McCarthyism has so cowed American intellectuals that no one in the government and few outside dare raise their voice in defense of a regime which has been officially stigmatized as "communistic." Outside the government, in the various international and labor organizations which make Washington their headquarters and are familiar with Latin America, there is a strong current of sympathy for Guatemala, but it is "off the record." The average American ever since a famous *Reader's Digest* article of a few years ago has seen only the alarmist picture of a Communist "beachhead" established in the New World "midway between the Panama Canal and the Texas oil fields." A small country whose total population is less than the armed forces of the U.S. is being blown up by propaganda into a menace—as was Mexico by the oil interests during its similar but more revolutionary agrarian reform.

Is the Guatemalan regime Communist? Even the unfair National Planning Association study, "Communism Versus Progress in Guatemala" (December, 1953), with its scarcely veiled call for civil war, says the Guatemalan Labor Party (Communist) "is the smallest group in the governing coalition. It holds only four of the fifty-one seats in the national legislature . . ." To bring pressure on Guatemala to purge them, though admittedly chosen in fair elections, is to go back on all we preach. To do so while wooing Peron and supporting Somoza is to suggest that we are following a double standard in Latin American relations.* To press for intervention against social revolution as a form of "internal aggression" is to revive dollar diplomacy in the guise of anti-communism.

The new regime in Guatemala may be overthrown, but that will hurt us more than the Communists. In Latin America it would again associate the U.S. with reaction. American intellectuals of all kinds must see that in the dynamic but limited confines of the Guatemalan revolution, the crushing of the Communists by force can only lead to the victory of the most backward native elements and their foreign corporate allies. The balance of forces is too precarious. Another Army dictatorship could be the only result. On the other hand, there is much the U.S. could do—if it chose—to prove itself a friend of the Guatemalan people. At present our Embassy has no contact with the laboring and agricultural masses, and our "technical assistance program" has largely helped the big planters. It is in this context that we wish to express our solidarity with the Guatemalan people and to offer, in the documentary exhibits of this special issue, a glimpse of the other side of the question.

We believe it especially important to call attention to the World Bank report, because this shows how honest observers, no matter how conservative, were impelled to see the need for radical reforms and socialistic development of resources in Guatemala. Capitalist interests can ultimately survive only if they show a willingness to play their part within the limits of such a program. Force may set the process back a few years, but only at the expense eventually of bringing to victory the very things we purport to fear.

* "Until 1944, the Indians were recruited for this work ['heavy unskilled labor on the Ladino plantations, farms and mines'] under a succession of legal-economic systems of forced labor and debtor servitude"—National Planning Association, "Communism vs. Progress in Guatemala," p. 6.

* An example was the speech made last October 14 by the Hon. John M. Cabot, then Assistant Secretary of State for Inter-American Affairs, calling at one and the same time for intervention against "communism" in Guatemala but saying of Peron's Argentina that its "different economic and political philosophy . . . frankly is none of our business." Mr. Cabot, now Ambassador to Sweden, has family ties with the First National of Boston, the United Fruit Company bank.

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The World Bank's Mission to Guatemala Proposed . . .

To do our part in deflating the Red scare campaign against Guatemala and to provide the corrective of background information from unimpeachably conservative sources, we here present a bird's eye view of Guatemala's basic problems as set forth in the report presented to President Arbenz of Guatemala on June 15, 1951, by Eugene R. Black, president of the International Bank for Reconstruction and Development. This was a 300-page study by a Bank mission to Guatemala (Johns Hopkins Univ. Press published the text as a book, "The Economic Development of Guatemala"). It may serve to indicate that the abuses of which the little Republic complains and the reforms on which it has embarked are something more than figments of conspiratorial imagination.

Do the Foreign Enterprises Pay Their Fair Share of Taxes? "Related to the question of the new income tax [as advocated in the report, IFS] is the problem of taxation of foreign enterprises, such as *Empresa Electrica de Guatemala*, United Fruit Company and the International Railways of Central America, which are now largely exempt. Substantial possibilities appear to exist here." p. 272.

What About Wage Increases? "There are indications that, since 1944 [when the revolution began, IFS], real wages—aside from social benefits—have in some cases not increased substantially. Money wages have barely kept pace with the rise of the general price level." p. 255.

Poverty and Illiteracy: "Better methods of crop production, livestock breeding, disease control and marketing cannot be learned by people who are illiterate and who have no clear conception of the conditions of the outside world with which they have to deal as purchasers and sellers.

"These things must be taught in the schools. But the schools can do little for children who are too anemic, undernourished, or debilitated by disease to benefit from instruction, or are so badly needed in their impoverished households that they attend school only irregularly or not at all." p. 75.

Foreign Companies Must Change Their Attitude: "The foreign companies should refrain from any direct or indirect political activity against the government; and they should accept, perhaps less reservedly than they have thus far done, the need to adapt their legal status and their operations to changed conditions." p. 283.

Public Power Development Suggested: "Establish an autonomous National Power Authority: (1) to plan and supervise an integrated program of power development; (2) to construct and operate publicly owned power facilities." p. 233.

Private Power Companies: "Of the private companies . . . the most important is the *Empresa Electrica de Guatemala*, a subsidiary of American and Foreign Power. This organization supplies approximately four fifths of all electric service in the country. Of this large fraction, about 92 percent is sold in the Guatemala City area . . . Under a 50-year agreement dating from 1923, this company supplies electric energy to the capital area without direct government control except as to maximum rates." p. 220.

Regulation Proposed: "Private power companies . . . should, of course, be required to conform to the national plan for power development and integration (when such a plan exists) and should also come under the impartial rate jurisdiction of the Public Utilities Commission as elsewhere recommended." p. 238.

Why They Opposed Land Reform

"All but a very small proportion of the people are landless . . . in spite of the fact that nominally public land is still available to buyers in large amounts . . . Large landowners often feel that if a thoroughgoing distribution of land to the Indians were carried through, cheap labor might no longer be available; and the economic basis of the life of the republic would thus be undermined."

—Guatemala, Past and Present, by Chester Lloyd Jones, Univ. of Minn. Press. 1940. p. 176-179.

If the USA Were Treated Like Guatemala

"Suppose a group of big dailies and magazines in England, France or Argentina should send a flock of reporters to investigate conditions in the United States. Suppose, after such a visit, the reports sent home should be based on nothing but the accusations of Senator Joseph McCarthy, the National Association of Manufacturers, or Gerald L. K. Smith concerning the dominance of Communism in the Truman Administration. Suppose that in questions pertaining to labor, the foreign correspondents had confined themselves to quoting the two extremes of the U.S. Steel Corporation and Harry Bridges, with nothing said about recent advances in social security, community housing, public health, rural development, new schools and victories in racial relations and human rights. Suppose the conclusions reached were that the United States was controlled by the Communists, who would soon drive out private enterprise and make this country the New World Center for Communism unless a really democratic foreign nation should intervene."

—Samuel Guy Inman: A New Day in Guatemala A Study of the Present Social Revolution. (Worldover Press, Wilton, Conn. 1951. 50 cents).

A Rightist Texas Daily on the Red Bogey in Guatemala

"Everyone has been reading about Guatemala being the center of world communism for the Western Hemisphere. The story goes that Communist headquarters are set up in Guatemala with the idea of a communist Guatemala that would dominate Central America as well as any and all countries in the Western Hemisphere.

"That is the silliest and biggest lie to ever come out of anyone's mind. In the first place this same story has been told so often about other countries that it's getting a little shopworn. We all know that a few years ago the Russians were supposed to set up the Western Hemisphere of communism in Mexico City. And for the propagandists and wild eyed boys it was good copy. But Mexico proved to be less communistic in its government than our own State Department which gave away China! So the ghost story writers and tombstone shakers have now picked a country which couldn't produce as much gunfire power as Peoria, Illinois . . .

"This propaganda is boomeranging against the U.S. because this propaganda is coming from friends of three U.S. corporations. These corporations' whole purpose is to control Guatemala and get a stranglehold over her. Certainly the United Fruit Company is important to Guatemala. The American Power & Electric Company is important to Guatemala and the Grace Steamship Lines are important. But the facts are that through their concessions they have a strangelhold on the future generation as well as the present generation of Guatemala. And 99 percent of all the propaganda originates from friends of these three monopolies."

—Editorial in the Laredo (Texas) Times, Jan. 28, 1954.

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. . . A 6-Year Plan and a More Socialistic "New Deal"

Port Monopoly: "Puerto Barrios is the only deep-water port in Guatemala where vessels can tie up alongside a pier. The International Railway Company pier is the only one existing at the port . . . Puerto Barrios is isolated from the rest of the Republic as far as highway traffic is concerned because of the inexplicable failure of the Government to construct the portion of National Route 4 lying between Los Amates and Puerto Barrios . . . Access to the pier areas and to the pier itself is limited to railway facilities . . . The situation has the practical effect of sending all traffic over one pier and all freight movement in this area over one artery, the railroad . . . To all intents and purposes, the area is under the complete control of the United Fruit Company and the International Railway Company. That control extends over the movement of practically all import and export cargo through the Atlantic areas. . . .

"Back of the situation lies the agreement, or series of agreements, under which the various links in the present railway system were constructed. In brief, Guatemala agreed that until about the year 2004, the Railway Company might operate free of taxation on its properties, free of payment of duties on its imports, free of control on its rates except as to certain very liberal maxima, and free of competition from other railroads . . . It is inevitable that this situation should give rise to charges of discrimination in rates and services between customers and to complaints of excessive charges against the public.* Some of these complaints as to charges may be justified, as a review of ton mile rates indicates. Likewise the heavy use of Puerto Barrios by the United Fruit Company, a large stockholder in the Railway Company, may justify some complaints as to the slow handling of other cargo . . ." p. 183-5.

Freight Rates Are Higher in Guatemala Than in the U.S.: "A comparison of the factors affecting costs of operation of the IRCA and a typical railroad in the United States, for example, would indicate that IRCA rates should be the lower of the two. Wages are substantially higher in the United States and the railroads there are subject to heavy taxes. Legal requirements for safety measures and for service impose added costs that do not now prevail by law in Guatemala. Further, winter conditions increase operating costs in the colder United States areas." p. 172.

How to Beat the Rates Down: "A much less expensive and less hazardous method [than nationalization of the railway, IFS] of accomplishing the same benefits would be through regulation by the Public Utilities Commission recommended above. The introduction of competition in freight hauling, through highway construction and the provision of more pier facilities, would likewise tend to insure proper rate levels, faster service to ships and prompt handling of merchandise. Both methods would be more certain in their effects than

* A stockholders' suit against United Fruit Company by minority stockholders in International Railways, alleging unfair rate practices for the benefit of the former is now being tried before Judge Hammer in the Supreme Court of New York. Secretary Dulles' law firm, Sullivan & Cromwell, represents the management of International Railways in fighting the suit.

Why Land Reform Was Needed

"Since monoculture [one-crop agriculture] rests upon the large landholdings (and vice-versa), raising the standard of living through diversification and mechanization is greatly dependent upon changes in the distribution of the profits and/or the land. The foreign corporations and the native large landholders oppose diversification and the development of a domestic market.

"To increase production per capita in the monocultural products only benefits the owners who spend their profits abroad during trips or by the importation of foreign luxury items, or, as in the case of the United Fruit Company, the major portion of the profits goes abroad to foreign shareholders. The standard of living under these conditions can not move strongly upwards without some changes in the distribution of profits or ownership."

—Aspects of Social Reforms in Guatemala, 1944-49. By Leo A. Suslow, Colgate Univ. Studies. 1949. p. 78. Available in mimeograph form at Library of Congress.

How They Used to Treat Labor

"During the extensive strikes in Guatemala, Honduras and Colombia martial law was declared and soldiers were dispatched to the scenes of conflict. In some cases soldiers sympathized and fraternized with strikers, with the result that soldiers were replaced by more dependable armed forces. In Guatemala, where legal strikes are practically impossible [this was written in 1936, IFS], many workers were killed, imprisoned or deported under the military rule. The Colombia strike was suppressed by the military with terrific bloodshed. The commander of the army estimated that forty strikers were killed and over 100 wounded; one of the strike leaders estimated that 1500 were killed and 3,000 wounded. More reliable estimates range between these two extremes."

—Social Aspects of the Banana Industry, by Charles David Kepmer, Jr., Columbia Univ. Press. 1936. p. 197.

Guatemala's Answer to the "Soviet Arms" Charges

"For several years the Government of Guatemala made unsuccessful efforts to buy armament in the United States with the object of properly equipping the Guatemalan Army for the national defense. But the U.S. Government has systematically refused to furnish it, and it has not been possible to obtain even pistols to fill requirements of the Police Force. This situation has gone to the extent that authorization even to sell low caliber ammunition to the Hunting and Fishing Club of Guatemala has been denied . . .

"It is important to point out that while Guatemala was denied the most essential elements for its defense and was prevented from getting them in other countries, the Government circles in the United States were not only furnishing arms and ammunition to several Governments that have taken an unfriendly and even aggressive attitude towards the Government of Guatemala but also concluded military treaties with these governments, thus causing justified alarm in Guatemala . . .

"The Government of Guatemala emphatically states that it has never negotiated purchase of armament from the Soviet Union or from Poland, and, furthermore, declares that in our territory there is no armament or military equipment whatsoever, made in any of the above mentioned countries. But it considers necessary to state categorically that, had negotiations taken place with the above mentioned countries, the government would have been exercising its legitimate right as a sovereign nation to freely trade with any country in the world. Guatemala is not a United States colony . . ."

—Statement by the Government of Guatemala, May 21, 1954

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Conservative U.S. Bankers Moved Left in Guatemala

would nationalization of the railway system and would save the Government the financial burden of acquiring and operating the Railway." p. 174.

Why Most Guatemalans Go Barefoot: "Most Guatemalan shoes are made by hand . . . A large part of it is done in small shops . . . There are two mechanized shoe factories in the Republic. Only one of these, at Coban, is allowed to manufacture shoes for domestic consumption. Apparently to avoid competition with inefficient hand workers, the Incatecu factory in the Capital is required by decree to export its output. As a result, both domestic and imported leather shoes are extremely expensive and most people wear sandals or go barefoot despite the fact that shoes are a primary need for health and social welfare." p. 109-10.

Criticism of Guatemalan Capitalists: "Guatemalan management has not yet been won over to the economy of high wages, a large volume of production and low prices. Mark-ups and profit margins are usually high. It is argued that since the market is so small the manufacturer must make a large profit on each sale. Local manufacturers are not easily attracted to the idea that lower prices might broaden their market . . . even in cases where it appears practicable, there has been reluctance to try it." pp. 96-7.

Profits Hide Abroad: "Yet financial resources for productive investment are not lacking in Guatemala. Their importance can be seen from the large amounts of funds belonging to Guatemalans but held outside the country. According to the latest statistics of the Federal Reserve System, private holdings of Guatemalan citizens in the U.S. alone amounted to around Q14 (roughly $14) million in 1950. This figure is conservative.

"It is unfortunate that such an important volume of funds, originating in a country that is so much in need of productive capital, should be kept abroad." p. 278.

Capital Gains Tax Proposed: "Yet it appears necessary not only to encourage productive investments, as has been done so far, but also to discourage unproductive ones. The proportion of relatively unproductive capital formation is very high. Probably one of the most useful correctives would be the capital gains tax to discourage speculative, nonproductive investments, particularly in real estate and inventory purchases. At present such activities are taxed only at low rates." p. 279-80.

Greater Social Investment by Government Advocated: "It is clear that a deliberate government policy encouraging business and the provision of tax incentives are not in themselves enough to allow reliance on private capital as the main source of economic development. It would be too optimistic to expect private capital to finance more than a small part of the basic improvements required in transportation, communications, power, warehousing, education or health facilities. These, in the initial stages must be essentially the task of public authorities in order to facilitate economic development." p. 280.

Poverty Makes "Socialistic" Measures Easier: "Finally, the unequal distribution of national income in Guatemala tends to make it easier to divert resources to investment purposes. In more developed countries, where income distribution tends to be more uniform and living standards are appreciably higher, any diversion of resources towards investment by taxation or other means is bound to reduce the real incomes of most consumers with all the difficulties involved in any such downward adjustment. In Guatemala, on the contrary, the measures that have been proposed here (including the tax increases) will hardly affect the traditional way of life of the great majority of Guatemalans." pp. 291-2.

Six Year Plan Suggested: "Amplify a broad six year plan of economic and social development—along the lines proposed by this Mission—as well as more specific one-year programs" p. 246. And use the government agency INFOP (Institute for the Expansion of Production) "to increase and diversify national production in fields where private entrepeneurs" are inactive. "Such an institute," the World Bank Report said of this government institution, "can constitute a center of long range economic programming. . . . It can pioneer in fields too new, too risky, or requiring too heavy capital investment to be successfully cultivated by private initiative." This was advice from Washington, not Moscow.

Socialist and Labor Warning

"Intervention by the United States Government—economic or in any other form—would be disastrous. One reason the Communists have been able to rally support is that they have been able to play on the deep nationalistic strain of many Guatemalans. State Department protests on behalf of the United Fruit Company gravely offended the nationalistic susceptibilities of many Guatemalans. Any further intervention by the U.S. would only serve to throw into the arms of the Communists that increasingly large element which is concerned with Communist influence and wants to combat it."

—Hemispherica, March-May, 1954. Bulletin of the U.S. Committee of the Inter-American Association for Democracy and Freedom (including Norman Thomas, and Serafino Romualdi of the A. F. of L.).

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